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Summit Attains Economic Heights

For a change, economic issues proved almost as tractable as political ones to the leaders attending the annual seven-nation economic summit in Tokyo. While a strong agreement on countering terrorism and improving nuclear power cooperation was grudgingly hammered out, a consensus on trade and monetary matters was more elusive. General support was voiced for several discussion topics that had arisen at earlier multilateral meetings, but to Japan's chagrin, conflict over the yen-dollar exchange rate developed. Nevertheless, the talks showed that the seven leaders were willing to consider a more coordinated approach to global economic problems.

Participants at the May 4-6 summit reaffirmed several previous commitments that had been discussed at the annual Organization for Economic Cooperation and Development meeting in April, including preparation for a new round of multilateral trade negotiations in September and developing rules for trade in services and other intangibles. Cautious steps were also made toward

on a good show for the summit. Unlike his previous meetings with political leaders, Mr. Nakasone seemed to have no specific objectives for his own summit, with the possible exception of exchange rate stabilization. The implications of this approach are likely to be held against him by LDP rivals in the coming months. Even in the case of the yen-dollar exchange rate, critics will charge that the government would not have had to be concerned over stabilization if it had not blindly acquiesced to U.S. pressure to drive up the value of the yen.

It is unlikely that his summit performance will markedly damage Mr. Nakasone's standing with the voters. According to opinion polls released just prior to the seven-nation conference, respondents expected little in terms of concrete results from the summit. This will help prevent any residual damage to the LDP in the upcoming elections. The real problem facing Mr. Nakasone, however, is in the party's inner circles, where rivals who agreed to support the prime minister until the conclusion of the summit can be expected to remove their gloves for the succession battle that is expected to follow.

In fact, most of the leading contenders for his post may have suffered politically as a result of the summit. Finance Minister Noboru Takeshita can be expected to share the blame for the problems facing the yen, while Foreign Minister Shintaro Abe might come under criticism for the Libyan terrorism statement. Ironically, that leaves LDP executive council chairman Kiichi Miyazawa as the only major opponent of Mr. Nakasone who stands to gain from the summit.

Michael W. Chinworth

Forecasts For Japan's Economy Revised

The sharp rise in the value of the yen and the fall in oil prices have led many economists in Japan to revise their forecasts for the fiscal year that began last month. For the 15 major economic institutions shown in Table 1, the average real growth forecast is 3 percent, compared to the 3.1 percent prediction made last December. Four institutions, though, revised their forecasts upward, while four made no change, reflecting the uncertainty over the impact of the strong yen. All agree, however, that the strong currency, combined with falling oil prices, will increase the country's FY 1986 current account surplus by an average of $14 billion.

The beneficial effects of cheaper imported materials, lower interest rates and less expensive oil are expected to boost both inflation-adjusted consumer spending and business investment about half a percentage point to 3.4 percent and 5.2 percent, respectively. But on average, the forecasters expect that the deflationary effects of the strong yen will outweigh these benefits. Exports valued in yen, which fell in the last half of 1985, are expected to decline at least 6.5 percent this year according to a number of economists. In March exports registered a 2.1 percent decline in volume terms from the year-earlier level -- the first drop in 25 months.

There are other signs of weakness in the economy as well. The ratio of inventory to sales rose in March to its highest level since July 1982. Moreover, a survey by Wako Research Institute predicts a double-digit decline

in profits for the second consecutive year, with net earnings down 14.8 percent in FY 1986 after a 19.7 percent drop last year. Fuji Bank, which forecasts only 2.2 percent real growth in FY 1986, believes the plunge in oil prices will have a negative effect on Japan's economy by lowering the value of companies' inventories.

Table 1: Revised Economic Forecasts For Fiscal 1986

(percentage change in real terms)

	GNP	Consumer Spending	Capital Spending	Current Account Surplus*	Y/$ Exchange Rate
Daiwa Securities Research Institute	4.3%	4.4%	6.1%	$70.7	Y188
Research Institute on the National Economy	4.0	3.3	4.9	77.7	180
Mitsubishi Bank	3.4	3.5	5.8	76.8	194
Nomura Research Institute	3.3	3.4	6.1	65.9	164
Sanwa Bank	3.0	3.7	5.4	73.7	180
Dai-Ichi Kangyo Bank	3.0	3.0	8.4	70.0	170
Long-Term Credit Bank of Japan	3.0	3.9	4.0	72.9	190
Wako Research Institute of Economics	3.0	3.6	5.5	73.7	180
Japan Economic Research Center	2.7	3.1	4.0	73.0	184
Nikko Research Center	2.7	2.9	4.7	77.3	180
Industrial Bank of Japan	2.7	4.3	5.1	72.4	180
Nippon Credit Bank	2.6	3.5	3.7	60.9	178
Sumitomo Bank	2.5	2.5	6.9	72.5	178
Fuji Bank	2.2	3.1	4.5	66.0	183
Nikkei Economic Electronic Databank System	2.1	3.5	3.5	58.5	175
Total Average	3.0	3.4	5.2	70.8	180

*In billions of dollars

Source: Japan Economic Journal, April 26

Other analysts, however, disagree. Minister of International Trade and Industry Michio Watanabe observed that "An oil price decline is never a negative factor for the Japanese economy." The average delivered price of oil in Japan in February was $27 a barrel, indicating that the benefits of cheaper oil are yet to be felt. The Research Institute on the National Economy predicts that lower oil prices will help the economy achieve the government's goal of 4 percent real growth. The institute expects domestic demand to account for 3.7 percentage points of growth, assuming an exchange rate of Y180=$1.00 and a further cut in the Bank of Japan's official discount rate to 3 percent.

The oil price decline, though, is likely to increase friction with Japan's trade partners by raising its FY 1986 current account surplus to about $70 billion, according to the consensus view of economic institutes. This forecast is based on an average exchange rate of Y180=$1.00, which already appears to be out of date, given the yen's rise to Y165.2=$1.00 on May 6.

The unexpected nature of the yen's recent surge is reflected in the long-range forecasts shown in Table 2. The yen has already passed the Y180=$1.00 level predicted for September 1986 and is approaching the 1989 forecast of Y159=$1.00. The forecasters do not expect Japan's current account surplus to recede quickly: they predict a surplus of $50.6 billion in FY 1989. This outlook assumes a discount rate of 4.2 percent, oil priced at $20.30 per barrel and 3.1 percent real economic growth in the United States.

Table 2: Long-Term Economic Forecasts

	Y/$ Exchange Rate		Current Account Surplus*	
	September 1986	March 1989	October-December 1986	FY 1989
Research Institute on the National Economy	Y180	Y150	$78.8	$51.0
Sumitomo Bank	175	160	74.0	70.0
Daiwa Securities Research Institute	185	150	67.5	25.0
Japan Economic Research Center	185	180	75.5	54.2
Industrial Bank of Japan	180	160	72.0	50.0
Long-Term Credit Bank of Japan	175	155	60.0	40.0
Nomura Research Institute	170	160	65.0	40.0
Mitsubishi Research Institute	175	160	65.0	45.0
Marubeni Corp.	185	160	76.0	65.0
Mitsui & Co., Ltd.	183	155	60.0	65.5
Total Average	180	159	69.4	50.6

*In billions of dollars at an annual rate. Midpoint given for range estimates.

Source: Japan Economic Journal, April 19, 1986

Randall S. Jones

Education Commission Releases Further Reform Recommendations

The prime minister's education reform committee has submitted a second set of sweeping recommendations to adapt the postwar educational system to the needs of the future. The commission's proposals largely conformed with its previous positions, including the expansion of continuing education courses to enable greater educational opportunities for adults, and prolonged probationary periods for newly hired teachers. The report emphasized the cultivation of individuality through broader flexibility for students in course selection, while maintaining traditional Japanese values in an international context.

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1984	1985	January-March 1985	January-March 1986	January 1986	February 1986	March 1986
Japan's Balance of Payments							
Trade Balance	$44,257	$55,986	$8,937	$14,593*	$2,386*	$4,784*	$7,423*
Exports (f.o.b.)	168,290	174,015	38,164	45,089*	12,723*	15,054*	17,312*
Imports (f.o.b.)	124,033	118,029	29,227	30,496*	10,337*	10,270*	9,889*
Current Account Balance	35,003	49,169	6,818	12,718*	1,878*	3,941*	6,899*
Long-Term Capital (net)	-49,651	-64,542	-10,355	-18,950*	-7,305*	-7,941*	3,704*
Overall Balance	-15,200	-12,318	-2,414	-5,695	-5,152	-1,299	756
International Reserves (end of period)	26,313	26,510	26,538	27,917	26,961	27,582	27,917
Japan's Customs Clearance Trade							
Trade Balance	33,611	46,099	6,016	12,475*	1,888	3,928	6,660*
Exports (f.o.b.)	170,114	175,638	38,510	45,502*	12,795	15,084	17,624*
Cars	21,899	25,402	4,561	6,517*	2,161	2,342	2,015*
Steel	13,852	13,566	3,269	2,867*	832	990	1,045*
Imports (c.i.f.)	136,503	129,539	32,495	33,027*	10,907	11,156	10,964*
Crude Oil	39,379	34,599	9,722	8,537*	2,691	3,299	2,547*
Japan-U.S. Trade							
Trade Balance	33,075	39,485	6,575	10,438*	2,903	3,729	3,806*
Exports (f.o.b.)	59,937	65,378	13,348	16,709*	4,957	5,735	6,017*
Imports (c.i.f.)	26,862	25,793	6,773	6,271*	2,055	2,005	2,211*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y251.10	Y200.50	---	---	Y191.80	Y179.70	Y179.60
U.S.-Japan Trade							
Trade Balance	-33,560	-46,152	-10,241	-14,374	-5,139	-4,048	-5,187
Exports (f.a.s.)	23,575	22,631	6,252	5,574	1,763	1,813	1,998
Industrial Supplies	9,139	8,680	2,435	n.a.	701	723	n.a.
Food and Feed	5,929	5,001	1,214	n.a.	426	395	n.a.
Capital Goods	5,627	5,939	1,736	n.a.	394	446	n.a.
Consumer Goods	1,476	1,416	368	n.a.	123	131	n.a.
Imports (Customs)	57,135	68,783	16,493	19,948	6,902	5,861	7,185
Automotive Products	18,477	24,980	5,381	n.a.	2,674	2,193	n.a.
Capital Goods	19,290	21,516	5,529	n.a.	1,363	1,839	n.a.
Consumer Goods	11,266	14,017	3,449	n.a.	2,097	1,158	n.a.
Industrial Supplies	7,276	7,035	1,866	n.a.	669	583	n.a.

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1984	1985	January-March 1985	January-March 1986	January 1986	February 1986	March 1986
Discount Rate (end of period)	5.0%	5.0%	5.0%	4.0%	4.5%	4.5%	4.0%
Outstanding Money Supply	7.8%	8.4%	7.9%	9.0%	9.0%	9.0%	9.0%
Industrial Production	11.1%	4.6%	6.3%	1.3%*	1.3%	0.9%	1.7%*
Manufacturing Operating Rate	7.3%	1.2%	1.9%	-1.4%*	-1.1%	-2.0%	-1.1%*
Number of Bankruptcies	8.8%	-9.7%	-9.5%	-10.8%	-13.3%	-11.3%	-8.0%
Residential Construction Starts	4.4%	4.1%	7.9%	5.5%*	9.5%	5.9%	2.1%*
Job Openings to Applications (ratio)	0.65	0.68	0.68	0.65	0.67	0.65	0.64
Nominal Wages	4.5%	3.5%	3.8%**	4.9%**	5.1%	4.8%	n.a.
Labor Productivity	9.9%	4.2%	n.a.	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	-0.3%	-1.1%	0.8%	-6.4%	-4.6%	-6.3%	-8.1%
Consumer Prices	2.2%	2.1%	2.0%	1.4%	1.4%	1.8%	1.1%
Yen-Based Export Prices	0.6%	-1.4%	4.5%	-14.1%	-11.1%	-15.2%	-15.9%
Yen-Based Import Prices	-3.4%	-2.5%	2.9%	-21.8%	-13.8%	-19.7%	-31.7%

*Preliminary

**Through February of each year only.

For Japan's most recent GNP figures, see JEI Report No. 12B, March 28, 1986.

STATISTICAL SUPPLEMENT